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SUBJECT: East Java: Toxic Mudflow Forces Evacuations;
Possible Political Ramifications for Minister Bakrie

¶1. (SBU) SUMMARY: A gas well being drilled 40 yards from the main north south transportation corridor in East Java, the Surabaya - Gempol toll road, fractured and has been spewing hot, potentially toxic mud 12 miles south of Surabaya in Porong, East Java since May 29. The rate of mud flows have increased from the 5,000 to the current 25,000 cubic meters per day forcing the evacuation of 4,000 residents from four villages near the well and the closure of businesses and has disrupted land transportation in East Java by forcing the closure of a major portion of the toll road. The mud may be emitting sulphuric acid gas and hundreds of local residents have reported respiratory problems, including three deaths. The drilling company reports repairs to the well may take as long as four months. Minister for Social Welfare, Aburizal Bakrie, owns a controlling interest in the well through the Bakrie Group and has acknowledged responsibility for damage claims. Most local commentators question whether he or his company will ever be held legally responsible. Many residents have been left homeless, jobless, and the local underground drinking water supply has been contaminated. There is yet no coordinated effort by local or national government leaders to assist local residents affected by the mudflow. Investigations are on-going as to circumstances surrounding the authorization of a well so close to a densely populated area and an important roadway. Competition spurred by decentralization among local governments to attract investment and their lack of expertise in evaluating the impact of such projects may have played a role. END SUMMARY

A Flood of Hot, "Toxic Mud"

¶2. (SBU) A gas well being drilled 40 yards from the Surabaya - Gempol toll road fractured and began spewing hot, potentially toxic mud on May 29 in Siring village, Porong sub-district, Sidoarjo Regency, East Java (about 12 miles south of Surabaya.) The foul smelling mudflow flooded the toll road disrupting traffic on the main north-south route between Malang and Surabaya. The drilling company, PT. Lapindo Brantas (LB), has been unable to stop the mud gusher which has increased from the initial 5,000 cubic meters to 25,000 cubic meters of mudflow per day, according to the Ministry of Environmental Affairs. More than 200,000 cubic meters of mud and white smoke have already discharged from the breached well enveloping over 1,200 acres of land area,

hundreds of homes and dozens of businesses in the Porong area. The mud has forced the evacuation of approximately 4,000 local residents from four nearby villages filling traditional markets, schools and government buildings in neighboring villages with internally displaced persons (IDPs). Many nearby businesses have been forced to close and transportation of goods from important manufacturing areas get to Tanjung Perak port in Surabaya has been disrupted.

How Toxic is Toxic?

13. (SBU) There are conflicting reports as to the level of toxicity of the mud. Dr. Mukono, a professor at Surabaya Airlangga University, tested the mud and gas emitting from the well and reportedly found sulphuric acid (H₂S), Hydrocarbon gas (HC) and Nitrous Oxide (NO₂). He told local newspapers to warn the public to stay far away from the well site. Government reports of mud tests found toxicity levels below regulatory maximums. Oil and Gas Regulatory Body (BP Migas) claimed that results from their Bogor laboratory tests show that the mud is not categorized as a dangerous substance (B3) and it has been "animal tested" (no further details). The head of the local environmental impact agency (Bapedal), Hartoyo, reported that local laboratory tests show the mud is not dangerous to people or the environment. At the same time, he warned people to avoid the mud because there could be a possible fluctuation in the sulphuric acid content in the mud to dangerous levels. Hasan Basri, head of the Sidoarjo Regency Environmental Department said that the amount of sulphuric acid content in the mud was

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decreasing to "tolerable levels". Dr. Eddy Kustanto, head of the Sidoarjo Regency Health Department told ConGen he could not "officially confirm" the existence of sulphuric acid in the mud, but that it smelt "very, very strong."

14. (SBU) Many residents living in villages near the drilling site village are complaining of respiratory difficulties after inhaling foul-smelling gas from the mudflow. They are also suffering from headaches and stomach pain. Bhayangkara Hospital in Porong has treated 782 residents for respiratory problems related to the mudflow, of which 72 were hospitalized. Kustanto said that at least 14 other nearby residents were evacuated for medical treatment due to respiratory problems, three of whom reportedly died from complications. The mud has also contaminated ground water and local irrigation well systems leaving local residents with no potable water. The mud flows are near the Porong River which, if reached, could contaminate drinking water for more densely populated areas in South Metro Surabaya.

High Level Attention, Limited Action on Ground

15. (SBU) There have been many statements of outrage and support by local and national politicians but little has materialized in the form of support for displaced residents. The President has ordered a "full, fast and serious" investigation into the operations of LB. East Java Police Criminal Investigation Division (CID) has questioned 27 people, including expert witnesses. The investigation process is being monitored by the Indonesian National Police (Polri), and in particular, they are looking at possible criminal violations of environmental regulations in both the licensing of the well by local officials and/or its operation by LB.

16. (SBU) East Java Governor Imam Utomo and his

technical advisors met June 19 with Purnomo Yusgiantoro, Minister of Energy and Mineral Resources to urge a rapid solution to this growing environmental and commercial disaster. Separately, Minister for Environmental Affairs, Rachmat Witoelar, threatened to terminate the operation of LB in East Java but later backed off this statement saying his ministry has no authority to order Lapindo to halt its operations, asides from giving a recommendation to do so to the Energy and Mineral Resources Ministry and the Oil and Gas Regulatory Body (BP Migas), which issued the exploration license. Governor Utomo issued a strong warning that he expected LB to cover all financial losses to local residents and noted that the provincial government would not be picking up the bill. The Sidoarjo Regency government has already spent approximately USD 2,000 from local emergency funds to assist its residents.

Minister of Social Welfare Putting Locals on Welfare

17. (SBU) One possible reason Environment Minister Witoelar tempered his initial aggressive position against the drilling company may be that LB is a subsidiary of PT Energi Mega Persada Tbk (EMP), which is controlled by Coordinating Minister for Social Welfare, Aburizal Bakrie. EMP is the designated operator of LB and owns a 50% participating interest. Other LB shareholders are Medco (32%), a publicly traded Indonesian oil exploration company and Australian based Santos (18%). EMP purchased its participating interest in LB in the mid-1990's, and by 2004, built LB to be the single largest supplier of gas to the East Java PGN's (State Gas Company) distribution network. According to EMP's 2005 annual report, last year LB produced almost half of EMP's total gas production. LB is one of EMP's most important sources of revenue. Closing down the LB's operations could create other problems, such as a gas shortage for national electricity generating company PLN. In June 19 public statements, Bakrie took responsibility for the mudflows caused by the well and referred compensation claims to his brother Nirwan at the Bakrie

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Group. In a June 20 visit to IDPs in Porong, Vice President Yusuf Kalla asked LB to pay compensation to the victims of mudflow in Porong and also asked Bakrie Group to be responsible for all social impacts of the mudflow. Nirwan Bakrie accompanied Vice President Kalla on his visit and distributed USD 532,000 (IDR 5 billion) to Saiful Illah, Deputy Regent of Sidoarjo.

How did It Start and What Can Be Done?

18. (SBU) The cause of the incident is still disputed. The drilling company LB claims that the mudflow was triggered by the Yogyakarta earthquake (Note: That May 27 earthquake was felt in Surabaya but we have heard no reports of any other damage.) Others claim the mudflow was caused by gas pressure from the well; the drilling equipment failed, fracturing the well thereby allowing strong gas pressure to the surface. Minister of Energy and Mineral Resources, Purnomo Yusgiantoro, told Jawa Pos that a team from his office has conducted an investigation at the site. The team is also investigating LB compliance with all environmental regulatory requirements with the initial proposal and design submitted to the Oil and Gas Regulatory Body (BP Migas). LB claims it followed all regulatory procedures and their environmental impact report was approved by appropriate government authorities and that it followed standard drilling procedures at the well. Local LB site manager Budi Santosa admitted that LB is

having difficulties handling the mudflow. Santosa estimated LB will need at least 30 days to repair the problem. More recently LB revised the estimate to upwards of 4 months.

18. (SBU) Expert teams from Canada and from Alert Disaster Control and Abel Engineering Well Control of Texas have arrived in East Java and are working to determine the cause and a solution to the uncontrolled mudflow. LB and the Sidoarjo Regency government have taken some actions to manage the mudflow, such as excavating a large retaining pond and installing pipe and flexible barriers to divert the mud away from villages and rivers. LB also has installed 2 kilometers of sand dikes to protect the toll road. Meanwhile, the Oil and Regulatory Body (BP Migas) is scheduled to bring in a "snubbing unit" by June 23 to detect the source of the mudflow. BP Migas estimates it will take three to four weeks to install the snubbing unit and identify the source of the problem.

Local Citizen Protests

19. (SBU) Complaints and protests from local residents and mass organizations have begun. Workers from neighboring factories held a demonstration in front of LB's office (which were also closed by the mudflow), asking for compensation since the mudflow has forced their employers to close operations. Local residents and social observers are criticizing both the local and central governments for being slow to handle the mudflow crisis. The Sidoarjo branch of the PKB political party announced plans to launch a class action law suit on behalf of local residents. Former President Abdurrahman Wahid met with affected residents at an IDP camp on June 18 and urged them to remain calm and promised to support them in suing the drilling company. Wahid called on LB to take responsibility for the incident and provide compensation to local residents and businesses while working to stop the mudflow. Rido Syaiful Ashadi, Director of East Java Walhi, a local environmental group, reported that the mudflow has become a trigger of social tensions among people in the surrounding areas. Residents from one village dammed the mud, forcing it in to a neighboring village. Those villagers destroyed the dam causing a conflict. Police are now guarding local villages to prevent further clashes.

Does Decentralization Play a Role?

110. (SBU) Competition among local governments for

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investment projects (and personal gain) may have played a role as increased decentralization of authority has not been matched by an increase in human resources, local government capacity or sense of community responsibility. ConGen contacts question how a new gas well can be drilled in unstable conditions adjacent to a densely populated area and immediately adjacent to the most important north-south thoroughfare in East Java. Local governments have increasingly been given responsibility to approve and control projects in areas where they have little to no expertise. The Porong incident and PT Lapindo Brantas, and by extension, Minister Bakrie, have come under political fire from East Java officials and politicians. While certainly some will use the "toxic mudflows" to personal advantage, others have raised the incident as an example of a larger systemic problem with the on-the-ground implementation of Indonesia's decentralization policy. In a recent discussion with ConGen pol/econoff, a National DPR member from East Java

strongly criticized what he termed the wrong interpretation of the "essence" of decentralization. In their drive to raise funds, local leaders are focused on attracting investment but often either ignore or do not have the skills to evaluate the impact on the environment, health, education and the local residents, especially the most vulnerable. For now, local residents wait for a full investigation, compensation, and most of all, for the mud to stop flowing.

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